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HARDEE FARMS INTERNATIONAL LTD.

ANNUAL REPORT

FISCAL YEAR ENDED JUNE 1

1968

Hardee Farms International Ltd.

BOARD OF DIRECTORS

A. W. G. Elve	*Toronto*
D. R. C. Harvey, Q.C.	*Toronto*
Grant Horsey	*Toronto*
T. P. N. Jaffray	*Toronto*
J. A. McKechnie	*Toronto*
R. A. McNair	*Toronto*
R. J. Morrison	*Montreal*
J. J. Phillips	*Toronto*
D. L. Sinclair	*Toronto*

EXECUTIVE OFFICERS

J. J. Phillips, *President*
A. W. Walker, *Vice President—Finance, Secretary*

SUBSIDIARIES AND DIVISIONS

Hardee Farms Ltd.	*Sherrington, Quebec*
Holland River Gardens Co. Limited	*Bradford, Ontario*
Ottawa River Farms Limited	*Alfred, Ontario*
Tropical Farms Division	*Lake Placid, Florida*

AUDITORS

McDonald, Currie & Co., Chartered Accountants — *Toronto*

SOLICITORS

Holden, Murdoch, Walton, Finlay, Robinson, Pepall & Harvey — *Toronto*

BANKERS

Bank of Montreal
Canadian Imperial Bank of Commerce
First National Bank of Miami
First Bank of Lake Placid

REGISTRAR AND TRANSFER AGENT

The Canada Trust Company, *Toronto, Montreal and Winnipeg*

HEAD OFFICE

Bradford, Ontario, Canada. Telephone Toronto 364-5436

Report to Shareholders

Operations

The Company's operations during the past year were the most successful it has yet experienced.

Consolidated earnings for the year ended June 1, 1968 were $110,626, compared with $62,672 and $4,048 for the two previous years.

The current sharp improvement in net earnings for the year is mainly attributable to the higher standard of operating efficiency which the Company has now achieved.

A further boost to operating profit is expected to result from the now completed expansion and modernization of the Company's capacity in french fried potatoes. The capital expenditure during the year on these facilities has made possible both a considerable increase in volume in this increasingly popular item, and a better controlled level of unit output costs.

Debt Reduction

Repeated reference has been made in past reports to the need for the Company to dispose of a sizeable portion of its unused land assets as a means of reducing the enormous debt load accumulated in its initial years. With this end in view, approximately 6,000 acres have now been leased to other parties, with the agreements requiring improvement of the leased land, and also providing options to purchase at any time during a three-year period. If all of these purchase options are exercised, sales proceeds of $1,135,000 will be realized on assets having book values of approximately $2,760,000. A provision of $1,625,000 has accordingly been made in the accounts.

Outlook

Dominant in the outlook for the near-term future are the two themes developed in this report, namely, a rigorously controlled operating structure to ensure maximum returns from future operations, and the beginnings of a systematic program of debt reduction through disposal of selected portions of the Company's land assets. The first of these is now virtually achieved, with controls sufficiently built-in to enable continuous adaptation to the inevitable vagaries of the commodities market. The second is only in its initial stages, and, in fact, will doubtless prove to be the keystone of the Company's longer-term future. The present Company will only realize its full potential when it is able to relieve itself of the onerous interest burden imposed by its early indebtedness, which has, in the light of experience of the present management, never justified itself in terms of flexibility or increased earning capacity, which was the original purpose. It is Management's conviction that these debts, mainly in the form of mortgages on land made sur-

plus by the Company's basic conversion from a grower to a processor, can steadily be removed by judicious sale and the Company at the same time maintained intact as a profit-making enterprise. In view of the structural strength which has now been achieved in the operations, we are confident of the Company's ability to make the necessary disposals without interruption to the profitable activity of the past three years, and without prejudice to the Company's future as a profitable unit.

Directors

It is with regret that we report the death of Mr. C. G. Cockshutt during this past fiscal year. Mr. Cockshutt had been a most valued Director, and the Company benefited from his constructive counsel.

Mr. Robert A. McNair was appointed to the Board in June, 1968. Mr. McNair is well-known in the food industry, and the Company is fortunate in securing his broad background of experience.

Your Directors wish to take this opportunity to express appreciation to all the employees for their enthusiastic co-operation and loyal support during the year.

On behalf of the Board

J. J. Phillips

President

September 16, 1968

Consolidated Balance Sheet

as at June 1, 1968

Assets

CURRENT ASSETS	1968	1967
Cash	$ 217,185	128,499
Accounts receivable	388,799	335,058
Inventories—		
Produce and supplies—at lower of cost or replacement cost	217,341	189,516
Beef cattle—at realizable value	939,930	949,575
Containers—at cost, less amounts written off	46,819	59,001
Prepaid expenses—		
Current crop	37,466	38,961
Other	26,786	29,623
	1,874,326	1,730,233
INVESTMENT IN AFFILIATED COMPANY		
Shares and debentures—at cost	102,000	102,000
FIXED ASSETS (note 2)	4,951,301	4,851,371
ASSETS HELD FOR SALE (note 3)	5,775,331	7,505,926
OTHER ASSETS		
Organization and financing expenses	574,996	574,996
Excess of purchase price of shares of subsidiaries over book value thereof	352,367	352,367
	927,363	927,363
	$13,630,321	15,116,893

Auditors' Report

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Hardee Farms International Ltd. as at June 1, 1968 and the consolidated statements of earnings, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Depreciation has not been provided in the current and four preceding years. Had depreciation been recorded in these years at normal rates, earnings for the current year would have been reduced by approximately $125,000 and both accumulated depreciation and deficit increased by approximately $770,000.

Subject to the foregoing qualification, and to the fact that, as stated in note 3, assets held for sale are carried at amounts which may not necessarily represent realizable values, in our opinion, these consolidated financial statements present fairly the financial position of the companies as at June 1, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDONALD, CURRIE & CO.
Chartered Accountants

July 26, 1968

Liabilities

CURRENT LIABILITIES	1968	1967
Bank advances—secured by beef cattle	$ 296,706	275,820
Accounts payable and accrued liabilities	384,440	286,014
Current instalments of long-term debt (note 4)	5,462	14,462
	686,608	576,296
LONG-TERM DEBT, less current instalments (note 4)	5,704,906	5,722,595
	6,391,514	6,298,891

Shareholders' Equity

CAPITAL STOCK (note 5)		
Authorized—		
49,448 first preferred shares of the par value of $100 each, issuable in series		
42,285 6½% non-cumulative second preferred shares of the par value of $100 each, redeemable at par		
4,000,000 common shares of no par value		
Issued and fully paid—		
9,198 6½% cumulative first preferred shares, Series A, redeemable at $120 per share	919,800	919,800
514 second preferred shares	51,400	51,400
1,753,554 common shares (1967—1,738,687 shares)	7,638,031	7,626,881
DEFICIT (note 6)	(1,370,424)	219,921
	7,238,807	8,818,002
	$13,630,321	15,116,893

Signed on behalf of the Board

J. J. PHILLIPS, *Director*

GRANT HORSEY, *Director*

Consolidated Statement of Earnings

for the year ended June 1, 1968

	1968	1967
SALES	$4,593,259	4,580,695
COST OF SALES AND OTHER EXPENSES (note 7)	4,152,730	4,187,882
EARNINGS FROM OPERATIONS	440,529	392,813
Interest	317,570	317,490
Loss on disposal of fixed assets	12,333	12,651
	329,903	330,141
NET EARNINGS FOR THE YEAR (note 8)	$ 110,626	62,762

125,000
110,626
- 14,374

95,000
62,762
-32238

Consolidated Statement of Deficit

for the year ended June 1, 1968

	1968	1967
SURPLUS—BEGINNING OF YEAR (note 6)	$ 219,921	157,249
Net earnings for the year	110,626	62,672
	330,547	219,921
Charges relating to assets held for sale (note 3)—		
Loss on disposals	75,971	—
Provision for excess of book values over option prices	1,625,000	—
DEFICIT—END OF YEAR (Surplus in 1967) (note 6)	$1,370,424	219,921

95 000
62 762
32238

125,000
110,626
14,374

Consolidated Statement of Source and Application of Funds

for the year ended June 1, 1968

	1968	1967
FUNDS WERE OBTAINED FROM		
Net earnings for the year	$ 110,626	62,672
Add: Charges not requiring outlay of funds—		
Interest deferred	79,317	133,038
Loss on disposal of fixed assets	12,333	12,651
Total from operations	202,276	208,361
Proceeds from disposal of fixed assets and assets held for sale	106,317	17,947
Issue of common shares on conversion of debentures	11,150	19,125
Deferment of amounts previously included with current liabilities	—	493,195
	319,743	738,628
FUNDS WERE APPLIED TO		
Retirement of long-term debt	97,006	39,337
Purchase of fixed assets	188,956	43,868
	285,962	83,205
INCREASE IN WORKING CAPITAL	33,781	655,423
WORKING CAPITAL—BEGINNING OF YEAR	1,153,937	498,514
WORKING CAPITAL—END OF YEAR	$1,187,718	1,153,937

Notes to Consolidated Financial Statements

for the year ended June 1, 1968

1. Foreign Exchange. Individual assets and liabilities in U.S. dollars have been converted at par and an adjustment has been made in the accounts to give effect to the conversion of net current assets in U.S. dollars to Canadian dollars at the rate of exchange prevailing at June 1, 1968.

2. Fixed Assets. Fixed assets are as follows.

	Held for sale (note 3)	In use	1968 total	1967 total
Buildings and equipment—at cost, less amounts written off	$ 907,635	2,312,627	3,220,262	3,209,853
Accumulated depreciation	175,047	604,126	779,173	793,819
	732,588	1,708,501	2,441,089	2,416,034
Land	6,066,930	3,242,800	9,309,730	9,340,450
Total	$6,799,518	4,951,301	11,750,819	11,756,484

Land in Canada has been valued on the basis of an appraisal dated July 11, 1962 by Mr. N. Porter, realtor, of Bradford, Ontario and in Florida on the basis of an appraisal dated August 31, 1962 by Messrs. R. P. Dunty and E. Nelson, realtors, of Lake Placid, Florida. The surplus of $5,273,919 resulting from these appraisals was applied in the year ended June 1, 1963 to write down certain items of plant and equipment and to write off "deferred farm costs".

3. Assets held for sale. The assets shown under this heading are as follows:

	1968	1967
Fixed assets (note 2)	$6,799,518	6,905,113
Related excess of purchase price of shares of subsidiaries over book values thereof	600,813	600,813
	7,400,331	7,505,926
Provision for excess of book values over option prices on certain assets held for sale	1,625,000	—
	$5,775,331	7,505,926

The company intends to sell these assets in an orderly manner to retire long-term debt. The period of time for disposal and the proceeds are dependent upon future market conditions. Accordingly, the amounts shown may not represent realizable values which may be more or less than book values.

As part of lease agreements expiring in 1970 the company has given options to purchase certain of these assets. If all of these purchase options are exercised, sales proceeds of $1,135,000 will be realized on assets having book values of approximately $2,760,000. A provision of $1,625,000 has accordingly been made in the accounts.

4. Long term debt.

	Current portion	Long term portion	1968 total
6¾% mortgage due September 20, 1980, payable $40,000 semi-annually commencing January 1, 1970	$ —	1,513,780	1,513,780
6% promissory note due January 1, 1981, payable $5,462 per annum	5,462	65,541	71,003
6½% serial debentures due June 15, 1969	—	50,000	50,000
6% unsecured notes due July 31, 1969	—	95,000	95,000
6% convertible debentures due June 1, 1971	—	165,002	165,002
	5,462	1,889,323	1,894,785
Bank loans and deferred interest thereon—secured by collateral mortgages	—	3,815,583	3,815,583
	$5,462	5,704,906	5,710,368

(a) The long term portion includes $5,129,933 payable in U.S. funds.
(b) 6% convertible debentures may be converted into common shares at the option of the holders at any time prior to June 1, 1971 on the basis of one common share for each 75¢ of the principal amount thereof. Interest on these debentures has been waived contingent upon the principal being paid when due and, as at June 1, 1968, the contingent liability in respect of interest on the debentures amounted to approximately $40,000.

5. Capital Stock. Of the authorized and unissued shares, 220,002 common shares are reserved against the exercise of the conversion right attaching to 6% convertible debentures, and 95,000 common shares are reserved under employee stock options exercisable at various dates to November 2, 1969 at 75¢ per share.

During the year 14,867 common shares were issued at 75¢ per share on the conversion of 6% convertible debentures.

At June 1, 1968 quarterly cumulative dividends payable on 9,198 6½% preferred shares outstanding were in arrears in the amount of $35.75 per share.

6. Deficit. Deficit includes contributed surplus of $392,342 arising on the reorganization of June 1, 1963, which amount has remained unchanged since that date. In prior years this contributed surplus has been shown separately on the balance sheet.

The balance of the deficit has arisen from transactions since June 1, 1963.

7. Expenses. Other expenses include $56,000 (1967—$65,058) for remuneration of senior officers of the company, including a director officer. No amounts were paid in either year to those directors who are not officers.

8. Income taxes. Income taxes otherwise payable for the year have been eliminated by claiming depreciation for tax purposes and the application of losses of prior years.

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